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SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1946

No. 1076 46

INTERNATIONAL SALT COMPANY, INCORPORATED,

Appellant,

vs.

THE UNITED STATES OF AMERICA

APPEAL FROM THE DISTRICT COURT OF THE UNITED STATES FOR THE SOUTHERN DISTRICT OF NEW YORK

STATEMENT AS TO JURISDICTION

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Counsel for Appellant.

PUTNEY, TWOMBLY, HALL & SKIDMORE,
Of Counsel.

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DISTRICT COURT OF THE UNITED STATES
SOUTHERN DISTRICT OF NEW YORK

Civil No. 32-310

UNITED STATES OF AMERICA

Plaintiff,

vs.

INTERNATIONAL SALT COMPANY,
INCORPORATED, ET AL.

STATEMENT AS TO THE JURISDICTION OF THE UNITED STATES SUPREME COURT ON APPEAL TO REVIEW THE JUDGMENT IN QUESTION.

Filed January 24, 1947

The defendant-appellant, having this day presented its brief for appeal, now files this statement of the basis upon which it contends that the Supreme Court of the United States has jurisdiction on a direct appeal to review the final judgment in question, and should exercise such jurisdiction in this case.

A. The Statutory Provision Believed to Sustain the Jurisdiction

This appeal is prosecuted from the final judgment or decree which has determined that defendant, International Salt Company, Incorporated, has entered into contracts and has used certain patents and patent rights owned or con-

trolled by it in restraint of interstate trade and commerce, in violation of Section 1 of the Act of Congress approved July 2, 1890, commonly known as the Sherman Act, 15 U. S. C. 1, and Section 3 of the Act of Congress of October 15, 1914, commonly known as the Clayton Act, 15 U. S. C. 14. The said final judgment further determined certain provisions of the agreements above mentioned to be unlawful, illegal and void and restrained this defendant from enforcing such provisions of such agreements, entering into any new contracts of similar effect, using its patent rights in certain respects and suing for infringement or the collection of royalties which may have occurred or accrued prior to the entry of the judgment from which this appeal was taken, and it further directed International Salt Company, Incorporated, to offer to lease, sell or license the use of the machines covered by the aforesaid patents to any applicant on non-discriminatory terms. The final judgment was rendered by the District Court upon a motion by plaintiff for summary judgment and without a trial, upon said court's determination that there were no issues of fact to be tried.

Section 238 of the United States Judicial Code, 28 U. S. C. 345, provides, in part, as follows:

> "#345, (Judicial Code, section 238). Appellate jurisdiction from decrees of United States district courts. A direct review by the Supreme Court of an interlocutory or final judgment or decree of a district court may be had where it is so provided in the following sections or parts of sections and not otherwise:
>
> "(1) Section 29 of Title 15, * * *"

Title 15 U. S. C., section 29, provides, as follows:

> "#29. Appeals to Supreme Court.
>
> "In every suit in equity brought in any district court of the United States under sections 1-7 of this title, wherein the United States is complainant, an appeal

from the final decree of the district court will lie only to the Supreme Court and must be taken within sixty days from the entry thereof: *Provided, however, That* if, upon any such appeal, it shall be found that, by reason of disqualification, there shall not be a quorum of Justices of the Supreme Court qualified to participate in the consideration of the case on the merits, then, in lieu of a decision by the Supreme Court, the case shall be immediately certified by the Supreme Court to the circuit court of appeals of the circuit in which is located the district in which the suit was brought which court shall thereupon have jurisdiction to hear and determine the appeal in such case, and it shall be the duty of the senior circuit judge of said circuit court of appeals, qualified to participate in the consideration of the case on the merits, to designate immediately three circuit judges of said court, one of whom shall be himself and the other two of whom shall be the two circuit judges next in order of seniority to himself, to hear and determine the appeal in such case and it shall be the duty of the court, so comprised, to assign the case for argument at the earliest practicable date and to hear and determine the same, and the decision of the three circuit judges so designated, or a majority in number thereof, shall be final and there shall be no review of such decision by appeal or certiorari or otherwise.

If, by reason of disqualification, death or otherwise, any of said three circuit judges shall be unable to participate in the decision of said case any such vacancy or vacancies shall be filled by the senior circuit judge by designating one or more other circuit judges of the said circuit next in order of seniority and, if there be none such available, he shall fill any such vacancy or vacancies by designating one or more circuit judges from another circuit or circuits, designating, in each case, the oldest available circuit judge, in order of seniority, in the circuit from which he is selected, such designation to be only with the consent of the senior circuit judge of any such other circuit. As amended June 9, 1944, c. 239, 58 Stat. 272."

B. Date of Judgment Sought to Be Reviewed and Date upon Which Application for Appeal Is Presented

The final judgment herein sought to be reviewed was entered on December 27, 1946.

The petition for appeal herein is dated simultaneously herewith and is presented and to be filed simultaneously herewith, on the 22nd day of January, 1947.

C. Statement Showing That the Nature of the Case and of the Decision of the Court Are Such as to Bring the Case Within the Jurisdictional Provisions Relied upon.

The action is a civil action and the plaintiff herein is the United States of America. Paragraph "I." of the complaint herein, entitled "Jurisdiction and Venue", alleges that the complaint is filed and the proceedings are instituted under Section 4 of the Act of Congress of July 2, 1890 (Sherman Act), as well as under Section 15 of the Act of Congress of October 15, 1914 (Clayton Act), to prevent and restrain continuing violations of Section 1 of the Sherman Act (15 U. S. C. 1), and of Section 3 of the Clayton Act (15 U. S. C. 14). Title 15 U. S. C. 29 provides for a direct appeal to the Supreme Court of the United States in any action in equity under Sections 1-7 of Title 15 wherein the United States is complainant.

The judgment appealed from by its specific terms, determines that the defendant has violated Section 1 of the Sherman Act (15 U. S. C. 1), as well as Section 3 of the Clayton Act.

D. Cases Believed to Sustain the Jurisdiction

The following decisions of the Supreme Court of the United States are believed to sustain the jurisdiction of the

Supreme Court on direct appeal to review the final judgment in question:

Hartford-Empire Company, et al., v. *United States*, 323 U. S. 386 (1945);
International Business Machine Corp. v. *United States*, 298 U. S. 131;
United States v. *Crescent Amusement Co., et al.*, 323 U. S. 173 (1944);
United States v. *Bausch & Lomb Optical Co., et al.*, 321 U. S. 707 (1944);
United States v. *Univis Lens Co., Inc., et al.*, 316 U. S. 241 (1942);
Ethyl Gasoline Corporation v. *United States*, 309 U. S. 436 (1940).

E. Statement of the Grounds upon Which It Is Contended That the Questions Involved Are Substantial

Three questions are involved on this appeal:

(1) Whether the provisions in the defendant's Lixator and Saltomat leases whereby the lessee agreed to use only rock salt or salt tablets manufactured and sold by the lessor, International Salt Company, Incorporated, with a clause giving the lessee the benefit of any decline in the price of either of such articles, constituted as a matter of law an unreasonable restraint of trade in violation of Section 1 of the Sherman Anti-Trust Act (15 U. S. C. 1).

(2) Whether the effect of the Lixator and Saltomat leases above described was, as a matter of law, to lessen competition substantially in the sale of rock salt and salt tablets in violation of Section 3 of the Clayton Act (15 U. S. C. 14).

(3) Did the fact, admitted by the defendant International Salt Company, Incorporated, in its answer that in 1944 de-

fendant sold approximately 119,000 tons of salt having an approximate value of $500,000, for use in said Lixator and Saltomat machines, establish in and of itself an undue and unreasonable restraint of trade on the part of defendant International Salt Company, Incorporated, in violation of Section 1 of the Sherman Act, or a lessening of competition effected by the Lixator and Saltomat leases which was on its face substantial, and in violation of Section 3 of the Clayton Act.

It is contended that these are all new questions, which have not yet been passed upon by the U. S. Supreme Court, are substantial, and of public interest as a novel interpretation of the anti-trust laws.

The Record Before the Court

The complaint in this action in substance alleges that defendant International Salt Company, Incorporated (hereinafter referred to as International Salt), violated Section 1 of the Sherman Act, and Section 3 of the Clayton Act by its entering into certain agreements concerning two patented machines known as the Lixator and the Saltomat, the patents on which are owned or controlled by International Salt. The agreements complained of consist of leases of such machines to various users of rock salt and salt tablets, which leases contain clauses by which the lessee agreed to use in said leased machines only rock salt or salt tablets purchased from the lessor, International Salt, with a further provision, however, in the case of the Lixator leases giving the lessee the benefit of any general reduction in the price of rock salt suitable for use in the Lixator, and in the case of the Saltomat giving the lessee the benefit of any general reduction in lessor's price of salt tablets suitable for use in the Saltomat machines.

The complaint further alleges that there were at present outstanding more than 750 Lixator leases and approximately 100 Saltomat leases, that defendant International Salt refused to grant licenses or rights or to sell or lease such machines free of the aforesaid restrictions, that defendant thereby intended to and did lessen competition in the sale of rock salt and salt tablets for use in such machines, and intended to and did prevent other salt manufacturers from selling their products to users of such machines, and that the effect of such leases has been substantially to lessen competition in the sale of salt, rock salt; and salt tablets to the lessees of Lixators and Saltomats.

Defendant's answer admitted the making of the leases, but denied the allegations regarding its intent to lessen competition, and the allegation that such leases had the effect of substantially lessening competition. It admitted that there were more than 750 Lixator leases outstanding and approximately 100 Saltomat leases, and further admitted that in 1944 defendant International Salt sold approximately 119,000 tons of salt having an approximate value of $500,000 for use in said Lixator and Saltomat machines. As an affirmative defense, the answer alleged that defendant International Salt in entering into such Lixator and Saltomat leases had no purpose or intent to create a monopoly in the sale of rock salt or salt tablets, or to restrain trade or commerce in such articles, but only to secure for itself the opportunity to meet competitive prices in such articles, and that the making of such leases did not in fact result in creating any monopoly or restraining trade or commerce in such products.

It further alleged that in fact many of defendant's lessees had been granted leases without the restrictive clause, that in many instances defendant sold Lixators outright and without restrictions, and that in no case had defendant refused to install a Lixator or Saltomat because the customer

objected to signing a lease containing the restrictive clause complained of; that in many instances lessees of the Lixators and Saltomats had purchased rock salt and salt tablets for use in such machines from sources other than defendant International Salt to the knowledge of said defendant, and in no instance had the defendant removed or attempted to remove or threatened to remove the machine from the possession of such lessee. It further alleged facts establishing that the Lixator and Saltomat machines would operate in a more satisfactory manner with the defendant's rock salt and salt tablets, because of the high Sodium Chloride of the defendant's rock salt and its lack of impurities, and because the defendant's salt tablets were manufactured from high purity evaporated salt made especially to meet the requirements of the canning industry and containing a minimum of the chemical impurities ordinarily found in such salt tablets, also that the containers for the defendant's salt tablets were made with a glazed interior surface which prevented the salt tablets from sticking to the side of the container and acquiring impurities and foreign matter from that source to be later introduced into the canned vegetables; and that the requirement limiting the lessee to the use of the defendant's rock salt and salt tablets was necessary to the satisfactory operation of the machine and the protection of the defendant's good-will.

The sole facts on which the Court relied in granting the motion for summary judgment are contained in the complaint and answer plus the copies of Lixator leases submitted by defendant at plaintiff's request, and forming a part of the record before the Court.

Argument

We have been able to find no decision where a lease of a patented machine has been held to violate the Sherman or Clayton Act because of so-called "tie-in" clauses where the

lease gives to the lessee the benefit of any decrease in the price of the material required to be used with the machine. This question, which is squarely involved on this appeal, is one of first impression.

The decision of the District Court in the case at bar, moreover, was based to a large extent on the decision in *Morton Salt Co.* v. *G. S. Suppiger Co.* (1942), 314 U. S. 488, in which the Supreme Court allowed a summary judgment dismissing a suit for patent infringement where it appeared that the patent owner had annexed to the patent license an obligation on the part of the licensee to buy from the patent owner unpatented salt tablets for use with the dispensing machine. The Supreme Court in that case, however, expressly refused to decide the question whether the lessor had violated the Clayton Act, that being one of the grounds urged on the appeal. Moreover, the Circuit Court of Appeals for the 7th Circuit, which did consider in the *Morton Salt Co.* case the question whether a violation of the Sherman Act or of the Clayton Act was established that would support the granting of a motion for summary judgment, held that there were factual questions to be determined before a showing of a violation of the Sherman Act or Clayton Act could be made out, and it reversed the judgment of the District Court which granted summary judgment on the ground of a violation of the anti-trust laws and denied the motion for summary judgment. The *Morton Salt Co.* case, therefore, in so far as the question of violation of the anti-trust laws was considered in that case, is an authority for a reversal of the judgment in the case at bar.

The District Court in the case at bar recognized the fact that the U. S. Supreme Court had not decided in the *Morton Salt Co.* case the question involved on this appeal. It rested its decision rather on an alleged extension of the doctrine of the *Morton Salt Co.* case based on certain language em-

ployed by the Supreme Court in its opinion in a later case, *Mercoid Corp.* v. *Mid-Continent Investment Co.* (1944) 320 U. S. 661. This language quoted on page 8 of the District Court's opinion is pure dictum, and if the point of law decided in the case at bar is to become established law it should be only by a considered decision of the U. S. Supreme Court in a case in which the question is squarely raised.

This is especially true where the decision of the District Court in the case at bar that plaintiff is entitled to summary judgment is in conflict with the decision of the 7th Circuit Court of Appeals in the *Morton Salt Co.* case.

The decision of the District Court, moreover, is in our opinion in conflict with the decisions of the U. S. Supreme Court in *Federal Trade Commission* v. *Sinclair Refining Co.* (1923) 261 U. S. 463, and in *Pick Mfg. Co.* v. *General Motors Corporation* (1936) 299 U. S. 3 affirming 80 Fed. (2d) 641. These two cases were considered by the District Court Judge (see opinion page 9) and because of them he refused to rest his decision on the ground that the conduct of the defendant International Salt was unlawful *per se*. He based his decision on the ground that "a restraint which affects 900 business units in a business aggregating $500,000 per annum is, without more, undue and unreasonable, and the lessening of competition on its face substantial."

This finding of the District Court is, we submit, in conflict with the decision of the U. S. Supreme Court in *Standard Oil Co.* v. *United States*, 283 U. S. 163, and with the decision of the 7th Circuit Court of Appeals in *G. S. Suppiger* v. *Morton Salt Co.* 117 Fed. (2d) 968 (cited supra) which at p. 972 of its opinion said:

> "• • • The volume of all the salt business is large. The amount used in the canning field is so small that its complete control would not result in a monopoly of the salt industry. It is not the salt tablet as such but the salt which goes into the salt tablet which must de-

termine the monopolistic tendency of plaintiff's lease contracts. For comparison see the amount of cracked gas to all gasoline used in the Standard Oil case, with the percentage of salt used in canning to all salt used for all purposes.' ' '"

"' ' ' Due to the District Court's entry of its decree in a summary proceeding, we are not able to determine the monopolistic extent of plaintiff's contract. The court was clearly in error in granting this summary judgment without an inquiry into the facts. Unless the defendant can make 'a definite factual showing of illegality' arising from plaintiff's agreement with its licensee, it is not entitled to judgment of dismissal. The presence of such a factual issue, ordinarily, is a bar to the granting of a summary judgment."

F. Statement Respecting Opinions

The District Court delivered a written opinion on granting the plaintiff's motion for summary judgment, but made no other finds of fact or conclusions of law in connection with the entry of the final judgment in question. A copy of the District Court's opinion is reproduced as appendix A, and attached to this jurisdictional statement.

By written consent of the parties dated January 17, 1947, the complaint was dismissed without prejudice as to the individual defendants Edward L. Fuller and Hervey J. Osborn.

Respectfully submitted,

LEMUEL SKIDMORE,
HENRY B. TWOMBLY,
Attorneys for International Salt Company, Incorporated, Appellant.

PUTNEY, TWOMBLY, HALL & SKIDMORE,
Of Counsel.

APPENDIX A

UNITED STATES DISTRICT COURT, SOUTHERN DISTRICT OF NEW YORK

Civ. 32-310

UNITED STATES OF AMERICA, *Plaintiff*,

against

INTERNATIONAL SALT COMPANY INCORPORATED, et al., *Defendants*

APPEARANCES:

Robert C. Barnard, Esq. Spec. Asst. to Atty. Gen. Atty. for United States
Wendell Berge, Asst. Atty. Gen.
Jas. C. Wilson, Spec. Asst. to Atty. Gen.
Butney, Twombly, Hall & Skidmore, Esqs. Attorneys for Defts.
Lemuel Skidmore, Esq.
Howard F. Ordman, Esq.
Of counsel

RIFKIND, *J.*

Plaintiff has moved for summary judgment (F. R. C. P., Rule 56; *United States v. Associated Press,* S.D. N.Y., 1943, 52 Fed. Supp. 362, aff. 326 U.S. 1) against the corporate defendant only, on the ground that the pleadings and admissions of the defendant show absence of any genuine issue as to any material fact and that plaintiff is entitled to a judgment as a matter of law. No affidavits have been submitted by either party.

This is a civil action brought pursuant to Sec. 4 of the Sherman Act, 15 U.S.C.A. 4, and Sec. 15 of the Clayton Act, 15 U.S.C.A. 25, to enjoin defendant from carrying out agreements in alleged violation of Sec. 1 of the Sherman Act, 15 U.S.C.A. 1[1] and Sec. 3 of the Clayton Act, 15 U.S.C.A. 14.[2]

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[1] The relevant portion of § 1 of the Sherman Act provides, "Every contract, combination in the form of trust or otherwise, or conspiracy, in re-

Defendant International Salt Company, Inc. (hereinafter referred to as defendant) is the largest producer of salt for industrial uses in the United States. It is engaged in the business of manufacturing and supplying salt for industrial, agricultural and home purposes. It is also engaged in the manufacture and distribution of a machine known as the "Lixator", which is manufactured by the defendant under patents owned by it. Defendant is also engaged in the distribution of a machine known as the "Saltomat", which defendant causes to be manufactured under a patent owned by it.

The Lixator dissolves rock salt, a raw material sold by defendant and other companies, into a salt brine solution. This brine is an essential part of the manufacturing processes of many industries, such as meat packing, refrigeration, laundering. The Saltomat is a machine used to inject a salt tablet of uniform quantity into canned products during the process of canning.

Defendant's business is interstate. In 1944, defendant sold approximately 119,000 tons of salt, having a value of approximately $500,000 for use with one or the other of the machines mentioned. Salt in many respects similar to that made and sold by the defendant is and has been sold by other companies in competition with the salt and salt tablets distributed by the defendant.

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straint of trade or commerce among the several States, or with foreign nations, is hereby declared to be illegal: * * *".

[3] Section 3 of the Clayton Act provides, "It shall be unlawful for any person engaged in commerce, in the course of such commerce, to lease or make a sale or contract for sale of goods, wares, merchandise, machinery, supplies or other commodities, whether patented or unpatented, for use, consumption, or resale within the United States or any Territory thereof or the District of Columbia or any insular possession or other place under the jurisdiction of the United States, or fix a price charged therefor, or discount from, or rebate upon, such price, on the condition, agreement, or understanding that the lessee or purchaser thereof shall not use or deal in the goods, wares, merchandise, machinery, supplies, or other commodities of a competitor or competitors of the lessor or seller, where the effect of such lease, sale, or contract for sale or such condition, agreement, or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce."

During the past three years, defendant has, and still is, engaged in entering into lease agreements with various persons for the use of the Lixator. There are in effect 840 lease agreements, each lease covering one Lixator machine. Of these 840 leases, 790 were made on the defendant's standard form of agreement. The remaining 50 vary in one or more respects.

The form contract for the Lixator contains a clause which reads as follows:

> "It is further mutually agreed that the said LIXATE Process Dissolver shall be installed by and at the expense of said Lessee and shall be maintained and kept in repair during the term of this lease by and at the expense of said Lessee; that the said LIXATE Process Dissolver shall be used for dissolving and converting into brine only those grades of rock salt purchased by the Lessee from the Lessor at prices and upon terms and conditions hereafter agreed upon, PROVIDED:
>
> "If at any time during the term of this lease a general reduction in price of grade of salt suitable for use in the said LIXATE Process Dissolver shall be made, said Lessee shall give said Lessor an opportunity to provide a competitive grade of salt at any such competitive price quoted, and in case said Lessor shall fail or be unable to do so, said Lessee, upon continued payments of the rental herein agreed upon, shall have the privilege of continued use of the said equipment with salt purchased in the open market, until such time as said Lessor shall furnish a suitable grade of salt at the said competitive price".

It further provides as follows:

> "Should said Lessee fail to pay promptly the aforesaid rental, or shall at any time discontinue purchasing its requirement of salt from said Lessor, or otherwise breach any of the terms and conditions of this lease, said Lessor shal have the right, upon 30 days' written notice of intention to do so, to remove the said LIXATE Process Dissolver from the possession of said Lessee".

Concerning the 50 Lixator agreements which differ from the printed form, the variations are set forth in the margin.[3]

During the past two years defendant has, and still is, engaged in entering into lease agreements with various persons for the use of the Saltomat. There are in effect 73 lease agreements covering 96 Saltomat machines. Each lease was entered into on defendant's printed form, which likewise contains a clause requiring the lessee to purchase defendant's salt tablets for use in the machine. The text of that clause is as follows:

> "It is further mutually agreed that the said Salt Tablet Depositor(s) shall be installed and maintained in good condition during the term of this lease; that the said Salt Tablet Depositor(s) shall be used only in conjunction with Salt Tablets sold or manufactured by the Lessor, and that the Lessee shall purchase from the Lessor, or its agent, Salt Tablets for use in the Salt Tablet Depositor(s) at prices and upon terms and conditions hereinafter agreed upon, Provided: If, at any time during the term of this lease, a general reduction in Lessor's price of Salt Tablets suitable for use in the Depositor(s) shall be made, said Lessor shall provide said Lessee with Salt Tablets at a like price".

The lease further provides:

> "• • • should Lessee fail to pay promptly the aforesaid rental, or at any time discontinue purchasing its requirements of Salt Tablets for said Salt Tablet Depositor(s) from said Lessor, or its agent, or otherwise breach any of the terms and conditions of

[3] All but 4 leases contain tying clauses, requiring the purchase of some or all of the rock salt from the lessor. Three leases permit the lessee to buy 50% of its salt requirements from defendant's competitors. Five leases with Armour & Co. provide that Armour & Co. may use salt produced by itself. In most instances the modifications are of little or no importance, for example, variances relating to additional facilities furnished by the lessor, and minor variations in rental terms or cancellation terms.

this lease, said Lessor shall have the right, upon 10 days' written notice of intention to do so, to remove the said salt Tablet Depositor(s) from the premises and/or possession of said Lessee".

The rock salt and salt tablets sold by defendant are unpatented articles.

Defendant denies, and for the purposes of this motion for summary judgment I must accept its denial as fact, that it has refused to grant licenses or other rights to other persons free of the aforesaid restrictions. It admits that it has in some instances refused to sell the machine outright. Defendant, however, asserts in its affirmative defense that it has in some instances sold Lixators outright to customers who objected to leasing the machine, and that in such cases it imposed no restrictions concerning the source from which the rock salt for use in the machine was to be purchased. The answer also asserts that in no case has defendant at any time refused to install either a Lixator or a Saltomat machine on the ground that the customer objected to the defendant's restrictions concerning the purchase of salt from the defendant.

This case presents for decision the precise question which the Supreme Court found it unnecessary to decide in *Morton Salt Co.* v. *G. S. Suppiger Co.*, 1942, 314 U. S. 488, reh. den. 315 U. S. 826. In that case the court allowed a summary judgment dismissing a suit for patent infringement where it appeared that the patent owner had annexed to the patent license an obligation on the part of the licensee to buy from the patent owner unpatented salt tablets for use with the patented dispensing machine. The court said (at page 494):

> "It is unnecessary to decide whether respondent has violated the Clayton Act, for we conclude that in any event the maintenance of the present suit to restrain petitioner's manufacture or sale of the alleged infringing machines is contrary to public policy and that the district court rightly dismissed the complaint for want of equity".

Interstitially we find in that opinion the cells from which the decision of the instant case could grow. The court spoke of "making use of [plaintiff's] patent monopoly to restrain competition in the marketing of unpatented articles, salt tablets * * * and * * * aiding in the creation of a limited monopoly in the tablets not within that granted by the patent" (p. 491), and also said that "courts, and especially courts of equity, may appropriately withhold their aid where the plaintiff is using the right asserted contrary to the public interest" (p. 492). I am unable to bring to mind any public interest which the court could have had in contemplation other than the public interest in the maintenance of a system of free competition. The misconduct which disqualified the plaintiff in the *Morton* case from enforcing his patent right was interference with the system of free competition. True enough the disposition made by the court of the case rendered it unnecessary for it to consider whether the restraint upon trade was undue or unreasonable or whether the lessening of competition was substantial. But clearly a petty or merely nominal offense against the public interest would hardly justify the court in withholding its aid to the holder of the patent. This reasoning is not dispositive, it nevertheless points a direction. In that direction the court has moved. In *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 1944, 320 U. S. 661, the court not only extended the doctrine of the *Morton* case to a contributory infringer, but also used language much more explicitly expressive of its intention to go forward in the direction but faintly suggested by the *Morton* case. It said:

> "It is the public interest which is dominant in the patent system. (p. 665) * * * The fact that the patentee has the power to refuse a license does not enable him to enlarge the monopoly of the patent by the expedient of attaching conditions to its use. (p. 666) * * * The patent is employed to protect the market for a device on which no patent has been granted. But for the patent such restraint on trade would *plainly run afoul of the anti-trust laws.* If the restraint is lawful because of the patent, the patent will

> have been expanded by contract. * * * Such a vast power 'to multiply monopolies' at the will of the patentee * * * would carve out exceptions to the anti-trust laws which Congress has not sanctioned. (p. 667) * * * Should such a decree [an injunction against infringement] be entered, the Court would be placing its imprimatur on a scheme which involves a misuse of the patent privilege and *a violation of the anti-trust laws.* (p. 670)". [Italics supplied.]

True, the *Mercoid* decision was not reached upon a motion for summary judgment, but the facts of record in that case show nothing more than is here admitted on motion.

In the light of these general principles the problem presented by the instant case must be decided. The defendant here urges the impropriety of summary judgment because of the presence of two triable issues, namely, (1) whether the Lixâtor and Saltomat leases do in fact substantially lessen competition, or tend to create a monopoly in salt, and, (2) whether the restraint of trade affected by these leases, if any, is an unreasonable restraint.

This contention is confronted by two possible answers. The first is that the conduct complained of is unlawful *per se.*

> *Fashion Originators Guild of America* v. *Federal Trade Commission,* C. C. A. 2, 1940, 114 Fed. 2d 80, 85 (footnote [4]), affd. 1941, 312 U. S. 457.

The other is that a restraint which affects 900 business units in a business aggregating $500,000 per annum is, without more, undue and unreasonable, and the lessening of competition on its face substantial.

Were it not for *Federal Trade Commission v. Sinclair Refining Co.,* 1923, 261 U.S. 463 and *Pick Mfg. Co. v. General*

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[4] "Price fixing is not, however, the only means unlawful per se; the interest of the consumer is not all that determines the 'reasonableness' of a contract 'in restraint of trade'. It is also unlawful to exclude from the market any of those who supply it—assuming that there is no independent reason by virtue of their conduct to justify their exclusion—and it is no excuse for doing so that their exclusion will result in benefits to consumers, or to the producers who remain."

Motors Corp., 1936, 299 U.S. 3, aff'g. 80 Fed. 2d 641, I should rest this case on the first answer. In this case, like in the cited cases, the lessees were apparently free to obtain competitive machines and equipment to handle the salt and salt tablets, and thereby be in a position to purchase salt from the defendant's competitors. At least I must assume that such is the fact in the absence of anything in the pleadings to contradict it. And while it is true that the holding of the *Sinclair* case and the *Pick* case has been severely restricted (*International Business Mach. Corp., v. United States*, 1936, 298 U.S. 131, 135; *Judson L. Thompson Mfg. Co. v. Federal Trade Comm.*, C.C.A. 1, 1945, 150 Fed. 2d 952, 956-7, cert. den. 326 U.S. 776; *Oxford Varnish Corp. v. Ault & Wiborg Corp.*, C.C.A. 6, 1936, 83 Fed. 2d 764, 767, reh. den. 85 Fed. 2d 390), nevertheless I prefer to rest the decision in this case upon the second answer. The intent and object of the Lixator and Saltomat leases were manifestly to exclude defendant's competitors from at least one portion of the business of the 900 lessees. Nor do I think such a decision foreclosed by the *Sinclair* or the *Pick* case.

In the *Sinclair* case the pumps did not appear to be patented. Here the machines are patented. Presumably, therefore, the identical machines cannot be procured elsewhere. Secondly, in the *Sinclair* case, the pumps were the vendee's means of resale. There was, therefore, an inducement to obtain additional equipment to satisfy customers' demand for other gasoline. Here the product is unknown to the consumer and the inducement is, therefore, lacking. Third, although unstated in the *Sinclair* case, it is nevertheless obvious that to allow a gasoline dealer to serve the public, through a Sinclair pump, gasoline other than Sinclair's would amount to cooperation in a fraud. No such ingredient is present in the instant case. *Signode Steel Strapping Co. v. Federal Trade Comm.*, C.C.A. 4, 1942, 132 Fed. 2d 48, 53.

In the *Pick* case an automobile manufacturer required a dealer by contract to agree not to sell or use in repair of automobiles made by that manufacturer, used parts or parts not manufactured or authorized by the manufacturer. The manufacturer gave to the purchasers of these cars, that is, to the ultimate consumers, a warranty against defect in

material and workmanship for a specified period. The replacements were operating parts of a complex mechanism, the origin of which is inevitably attributed to the manufacturer and the failure of which is inevitably placed at his door, with resulting impairment of good will and damage to the reputation of his product. *Oxford Varnish Corp. v. Ault & Wiborg Corp.*, supra, at 767 (83 Fed. 2d).

In the instant case the public is totally unaware of either the use of salt in the product or of the source of any salt and the means by which it was acquired. The preservation of the good will of the purchasing public is not at all involved.

Moreover, an analysis of the prices reflected in the 50 Lixator agreements which have been submitted, shows a nominal annual rental of $1 in 13 instances, and no rental other than "good and valuable consideration" in 3 instances. In all Saltomat leases there is provision that, after the lapse of five years, rental shall be at the nominal amount of $1. The same is true in all Lixator leases, with the exception of six instances. In these cases, therefore, the only valuable consideration which the lessor obtained is the lessee's promise to buy unpatented salt from the lessor. In other words, the patent is being used solely to restrain competition.

It appears, therefore, that a violation of Sec. 1 of the Sherman Act and of Sec. 3 of the Clayton Act has been made out.

International Business Machines Corp. v. United States, supra, at p. 140;
Radio Corporation of America v. Lord, C.C.A. 3, 1928, 28 Fed. 2d 257, 260, cert. den. 278 U.S. 648;
Oxford Varnish Corp. v. Ault & Wiborg Corp., supra;
Signode Steel Strapping Co. v. Federal Trade Comm., supra.

There remains for consideration only the affirmative defense, unsupported by affidavit submitted in opposition to the motion. Therein the defendant alleges that by leasing the machines, instead of selling them, defendant was able to require the machines to be kept in good repair, thereby insuring to the lessee a satisfactory operation of

the machine and protecting the good will of the defendant with its customers and the trade. The protection of good will of the lessor is insufficient as a defense where the substantial benefit of the tying clause to the lessor is in the elimination of competition and where it does not appear that the protection of good will cannot be achieved by methods that do not tend to monopoly and are not otherwise unlawful.

International Business Machines Corp. v. *U. S.*, supra, at p. 138.

Defendant further alleges in its affirmative defense that in entering into the lease it had no intention to create a monopoly or to restrain trade, but only to secure for itself the opportunity to meet competitive prices. Manifestly, defendant's subjective state of mind cannot affect the determination of the present motion.

The answer further alleges that defendant has in many instances sold the Lixators outright where a customer has objected to leasing the machine, and that defendant has never refused to install a machine because the customer objected to sign one of the standard forms. In a suit to enjoin the use of a lease which is violative of the Clayton Act, it is no defense that an alternative form of lease claimed to be unobjectionable was offered to the lessee.

United Shoe Machinery Corp. v. *U. S.*, 1922, 258 U. S. 451, 464, reh. den. 259 U. S. 575.

Defendant's allegation, unsupported by affidavit, that in many instances lessees purchased salt and salt tablets from sources other than defendant, and that in such instances the defendant has made no effort to enforce the covenants of the lease, is no defense in an action of this character. The power to do so is ever present.

United Shoe Machinery Corp. v. *U. S.*, supra, at p. 458.

Finally, it is alleged by defendant that to insure the satisfactory operation of the machine, and for the protection of its good will, it is necessary to use salt and salt tablets of a specified grade and content which defendant's product

alone is sure to offer. This defense is likewise insufficient even if the allegation were true, which is doubtful.[5]

International Business Machines Corp. v. *U. S.*, supra, at p. 138;

Judson L. Thomson Mfg. Co. v. *Federal Trade Commission*, supra, at p. 957.

The motion for summary judgment is granted.

Defendant calls attention to the nature of the relief demanded by plaintiff in its prayer for judgment and argues that in any event plaintiff is not entitled to all of the relief it seeks. No decision is now made with respect to it. Further hearing will be had concerning the terms of the decree to be entered herein.

Dated, New York, N. Y., November 20, 1946.

SIMON H. RIFKIND,
U. S. D. J.

[5] Out of the 50 submitted Lixator agreements, in five instances the lessee was permitted to use its own salt. In two instances the lessee was required to buy from the lessor only 50% of the salt used. In four instances there was no tying clause.